

Central Intelligence Agency



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## DIRECTORATE OF INTELLIGENCE

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China: Maritime Shipping Developments 

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Summary

We believe China will continue to expand its merchant fleet but that reported plans to increase the fleet from almost 13 million tons to 30 million tons by the year 2000 are overly optimistic. The depressed state of the world maritime industries and the shallowness and congestion of Chinese ports will work against China's ability to meet the target. The limited capacity of Chinese shipyards and the shortages of experienced crews also will affect fleet expansion plans. Nevertheless, we expect Beijing to push development of its maritime industry to carry as much of its foreign trade as possible in Chinese ships, both as a means of earning foreign exchange and of employing its abundant labor force. China's desire to avoid the controls of the US Controlled Carrier Act implies it is interested in cross trading--a practice that could help finance expansion plans.

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Fleet Development

In the 1970s, the Chinese began an impressive fleet development program primarily aimed at eliminating China's dependence on chartered foreign vessels. The fleet now includes float-on and float-off ships, roll-on and roll-off ships, container ships, refrigerator ships, bulk carriers, oil tankers, and log carriers, as well as traditional general cargo and passenger ships. Chinese ships now make calls at 420 ports in over 100 countries. By 1982, the Chinese had opened full container service routes to the east and west coasts of the United States, adding to the existing routes to Hong Kong, Japan,

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and Australia. In August 1983, they opened a full container route to Western Europe. [ ]

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With an expanded domestic shipbuilding capacity and the purchase of both new and second hand vessels on the world market China has built the world's 12th largest maritime fleet. By the end of 1982, China's merchant fleet consisted of 957 ships or almost 13 million deadweight tons (dwt), some six times the deadweight tonnage of 1970 (see table). And, according to a China Ocean Shipping Company (COSCO) official, the Chinese have set a target of 30 million dwt target for the end of this century.<sup>1</sup> [ ]

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### China: Merchant Fleet Tonnage

Year End	Number of Ships	Deadweight Tons (dwt) (thousand)	Average dwt (thousand)	Ocean Cargo Originated (Million Metric Tons)	Ratio of Cargo to dwt
1965	190	1,075	5.66	2.46	2.3
1970	269	1,944	7.23	4.99	2.6
1975	495	6,082	12.29	24.24	4.0
1980	870	11,800	13.56	42.81	3.6
1981	907	12,220	13.47	41.53	3.4
1982	957	12,817	13.39	46.06	3.6

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### Fleet Productivity<sup>2</sup>

World economic conditions have so depressed the shipping trade that a record 13 percent of the world's merchant fleet was idle at the end of January 1983, according to the General Council of British Shipping. This slowdown in world trade has affected the productivity of China's fleet even though it continues to carry the bulk of Chinese exports and imports. Although the Chinese added 1 million dwt to the fleet between 1980 and 1982, the 1982 ratio of cargo to deadweight tonnage showed the same 3.6 ratio as in 1980, after dropping slightly in 1981 (see table).<sup>3</sup> [ ]

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<sup>1</sup> Appendix A contains a brief introduction to those sectors of the Chinese Maritime Industry that are concerned with international trade. [ ]

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<sup>2</sup> The ratio of cargo tonnage carried to total deadweight tonnage of the fleet is used as a measure of productivity for this paper. [ ]

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<sup>3</sup> In contrast, the Soviet fleet showed a 11.4 ratio of cargo to deadweight tonnage in 1982. [ ]

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The rapid rise in China's foreign trade that has fostered fleet expansion in the past will probably continue to allow the fleet to maintain current productivity levels. Chinese foreign trade is expected to continue its upward trend, especially with China's current foreign exchange reserves of \$17 billion. Nevertheless, China will be hard pressed to raise productivity if the fleet expands too rapidly. According to some industry analysts, it could be as late as 1988 before the current overcapacity (more ships than cargo) in world trade is reduced to an acceptable market balance. [ ]

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### Foreign Trade Drives Maritime Expansion

One of China's maritime objectives is to carry as much of its foreign trade in Chinese bottoms as possible. Thus, the Chinese tend to export on a cost, insurance, and freight basis and to import on a free on board basis. China's claim that 70 percent of its foreign trade moves on COSCO ships is in our view accurate. The failure of the US fleet to get the one-third share of the US-China trade called for in the now-expired US-China maritime agreement is further evidence of China's strong effort to carry as much of its foreign trade cargoes in Chinese vessels as possible. The US fleet managed to carry only 15 to 16 percent of the bilateral liner cargoes and a negligible amount of the bulk cargoes. [ ]

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In value terms, China's foreign trade has more than doubled since opening up to the West in 1977, totaling some \$38 billion in 1982. The Sixth Five-Year Plan (1981-85) calls for an additional increase of some \$19 billion by 1985--a real growth rate of 8 to 9 percent per year. We believe these increases will continue to cause serious congestion problems in Chinese ports. Toward the end of the 1980s, however, congestion problems--particularly in the dry bulk and general cargoes trade--could ease somewhat as the Chinese open new facilities. Construction of 132 new deepwater berths (for vessels 10,000 dwt or greater) in coastal harbors is to begin by 1985, adding 100 million tons of cargo capacity. The Chinese are also trying to improve the capacity of river ports, especially on the Chang Jiang (Yangtze River). They plan to construct 30 new berths on the river below Nanjing and, this past spring, opened the Chang Jiang ports of Nantong and Zhanjiang to foreign ships, mainly to relieve the pressure on Shanghai--the largest and busiest port. [ ]

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### Draft Restrictions Increase Ship Calls

Because shallow depths limit access of larger ships to Chinese ports, the Chinese use more and smaller ships than would be needed with deeper ports. As the table shows, the average ship size has hovered around 13,000 dwt although there are some tankers and bulk carriers in the 60,000-to 80,000-dwt class. China's dredging fleet, one of the world's most modern, tries to maintain a minimum clearance for 20,000-dwt ships at most major ports. Most ports, however, are located at river mouths, where

deposits of clay, silt, and sand necessitate constant dredging. For example, about half of Shanghai's berths cannot handle ships over 10,000 dwt, and there is little hope for significant improvement even with additional dredging. Alternatively, China could side step the draft problem by developing more deepwater ports at new coastal locations. A 100,000-dwt berth is under construction at Shijiusuo, but we know of no long-range plans for building additional 100,000-dwt class berths at other new coastal locations. [ ]

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#### Domestic Ship Production

China's shipbuilding industry has significantly increased its exports since building its first export vessels in 1977, and we believe the industry will continue to go after a larger share of the global market. Since 1980, China has contracted to build for the world market over 1 million dwt valued at around \$1 billion. The Chinese agreed to these contracts even though plans for expanding their own maritime fleet already exceed yard capacity (Chinese shipyards produced 1,025,000 tons in 1982). The Sixth Five-Year Plan calls for 5.8 million dwt to be added to the fleet during the 1981-85 period. Domestic shipyards are slated to produce 2.5 million of this between 1982 and 1985. Thus, China needs to purchase over 2 million dwt abroad to raise the 1982 fleet up to the 1985 target. [ ]

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We expect China will continue to expand its shipbuilding capacity and to produce both for domestic and foreign sales. China's shipyards are increasing the percentage of domestic materials used in ships for export through licensing and joint production agreements with foreign firms. Although these shipyards now produce high quality ships for export, China is buying similar ships abroad. For example, a Shanghai shipyard is constructing a 12,800-dwt container ship for a Singaporean company at a time that China has a contract with a West German shipyard for four container ships (12,300 dwt) and reportedly is negotiating with West German yards for nine more container-ships. We believe the Chinese also will continue to buy ships abroad because they need to replace a number of the older second-hand vessels that were purchased at bargain prices during the expansion program of the late 1970s. The need to replace older ships, the desire to export ships, and expansion goals for the future, in our opinion, will keep China active as both buyer and seller in the world market. [ ]

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#### Experienced Crews

A shortage of skilled crews also works against achievement of the planned increase in tonnage to 30 million dwt. Although around 1,500 seamen are now trained yearly at eight colleges and high schools, graduates go to both the Chinese fleet and to foreign shipping lines. By supplying Chinese crews to foreign ships China not only has another source of foreign exchange but also gains from the skills acquired by the crews on foreign

vessels. Even if the Chinese continue this practice, we believe they probably will not have enough experienced crews to man a rapidly expanding fleet. The need for skilled seamen will probably be particularly acute if future fleet additions include a large number of specialty vessels such as container ships.

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### Cross-Trade Potential

Some international carriers have expressed concern that a rapid growth of China's merchant fleet carries with it the potential for China to undercut foreign liner services in the cross trades--the carrying of cargo between two foreign ports. Indeed, some cross-trade cargoes are already moved along Chinese liner routes, and one service specifically for cross trading between Malaysia and Europe has been established. We believe the Chinese have been less active in the cross trades because most of the fleet tonnage is dedicated to carrying their own trade.

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However, we expect that as the Chinese fleet expands--especially with container ships--the fleet will take advantage of opportunities for carrying cross-trade cargoes. Cross trade can be a valuable source of foreign exchange, as it has been for the Soviet maritime fleet. Moreover, bargain-priced ship additions and low labor costs provide the fleet an opportunity to undercut established shipping rates. We believe, however, the continuing acquisition of containerships and the opening of new container routes will enable the Chinese to increase cross-trade cargoes without resorting to excessive rate cuts. For example, the first voyage over the new container route to Western Europe included calls at Hong Kong, Singapore, London, and Rotterdam before docking in Hamburg--all of which add to cross trade opportunities.

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Although the Chinese have container routes to the East and West coasts of the United States they have not been active in the cross trade from US ports. However, the Chinese demands for most-favored-nation status and exemption from the Control Carrier Act for cross trade, along with the strong interest in improving access to US ports expressed during the latest US-Chinese maritime negotiations, probably indicate a Chinese interest in carrying cross trade cargoes from US ports. The Controlled Carrier Act (Ocean Shipping Act of 1978) requires a foreign government owned or controlled (in excess of 50 percent) carrier to maintain just and reasonable classifications, rules, or regulations and to have on file with the US Federal Maritime Commission rates and tariffs that are deemed just and reasonable in order to obtain the Commission's approval for cross trading. The granting of most-favored-nation status would remove the Chinese from these controls.

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At a future date, the extent of government ownership or control of shipping companies could become a controlled carrier issue because the Chinese are encouraging the development of non-

central government transport services. Beijing is encouraging city, provincial, and individual operators to invest in shipping fleets for both domestic and foreign trade. A number of the larger port cities and a few provinces have begun independent operations not only for short hauls but also for foreign trade in Asian waters. According to the Chinese media, these provincial and lower level enterprises by early 1983 controlled some 300,000 deadweight tons of shipping, which offered services to Hong Kong, Japan, the Philippines, and Singapore. So far, there are no indications that these independent operators will expand service to the United States.

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## Appendix A Principal Organizations in China's Maritime Industry

The following discussion reviews the more important organizations in the Chinese maritime industry that are involved in international trade. There is some overlap in organizational responsibilities and the potential for bureaucratic conflict in Chinese maritime affairs is large. The Ministry of Communications controls most of China's water transportation resources through the China Ocean Shipping Company, the China Ocean Shipping Agency, the China Merchant Steamship Navigation Company, Ltd., and the Hong Kong-based companies. The Ministry of Foreign Economic Relations and Trade controls the China National Foreign Trade and Transportation Corporation and the Chinese National Chartering and Ship Brokering Corporation. The Chinese are particularly aware of the overlap between the Ministry of Communications and the Ministry of Foreign Economic Relations and Trade and [redacted] 25X1

[redacted] the government is studying the possibility of reorganizing the maritime industry. [redacted] 25X1  
the study could result in the creation of a new maritime agency reporting directly to the State Council whereby dual responsibilities would be reduced in maritime affairs. [redacted] 25X1

### Ministry of Communications (MOC)

MOC is responsible for most of China's ports and road and water transportation systems. [redacted] 25X1

China Ocean Shipping Company (COSCO) controls the Chinese international fleet through its six operating divisions based in the ports of Shanghai, Tianjin, Dalian, Qingdao, Guangzhou, and Nanjing. COSCO, while retaining the responsibility of overall coordination, is reportedly allowing more decentralization of authority in its structure by giving each division greater responsibility in operating its own fleet. COSCO carries out the following specific functions:

- o Administration and operation of China's fleet of oceangoing ships.
- o Direct chartering of foreign vessels.
- o Administration of Chinese-flag ships participating in joint shipping operations with foreign countries.
- o Overseeing the Chinese-owned flag-of-convenience shipping companies in Hong Kong.
- o Assisting in the purchase and registration of new shipping. [redacted] 25X1

China Merchant Steamship Navigation Company (CMSN) functions as a shipping agent and charter broker for China and its joint

shipping companies--Sino-Albanian Shipping Co., Sino-Polish Shipping Co., and Sino-Tanzanian Shipping Co.,--and as a general agent for COSCO. CMSN also oversees the Chinese owned--Hong Kong registered companies--Ocean Tramping Co., and Yick Fung Shipping and Enterprises, Co. which fly the Panamanian flag. CMSN performs the following functions:

- o Transport of passengers and cargo by water in China and abroad.
- o Operation of wharves, warehouses, and subsidiary transportation at home and abroad.
- o Towing and lightering in Chinese and foreign ports.
- o Selling ship's stores.
- o Operating ship agencies at home and abroad.
- o Operating as cargo agency for shipment, transshipment, and through transit of cargo.

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China Ocean Shipping Agency (COSA or PENAVICO) is the primary Chinese port agency, acting as an agent for all Chinese and foreign ships in Chinese ports. COSA operates 18 principle branches in China. The agency arranges:

- o Entry and departure procedures.
- o Pilotage, berths, and cargo handling.
- o Inspection, testing, weighing, and measuring of cargo, and inspection, fumigation, cleaning, and sweeping of cargo holds.
- o Transshipment of international cargo by sea.
- o Door-to-door container service within China and in a few foreign countries.
- o Shipments, booking space, and international sea passages.
- o Ship repairs and marine surveys.
- o Settlement of cargo claims and handling of marine casualties, including salvage operations.
- o Calculation and collection of freight and settlement of claims for dispatch money and/or demurrage.
- o Chartering, purchase/sale, delivery/redelivery, and handling/taking over of ships.

o Medical treatment for crew members and procedures for their replacement and repatriation. [ ]

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Ministry of Foreign Economic Relations and Trade (MFERT)

MFERT has responsibility for development of trade with emphasis on exports. [ ]

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China National Foreign Trade and Transportation Corporation (SINOTRANS), directly under the Ministry of Foreign Trade, is responsible for arranging the internal and external transport of China's foreign trade cargoes by all modes of transportation. Normally, SINOTRANS arranges for sea transportation on Chinese-flag ships, but also can arrange with China National Chartering Corporation for shipment by foreign vessels. [ ]

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Chinese National Chartering and Ship Brokering Corporation (SINOCHART OR ZHONGZU) charters vessels and books shipping space on the international market at the request of SINOTRANS. Headquartered in Beijing, SINOCHART has branch offices in 18 Chinese ports. [ ]

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Far Eastern Enterprises Company, Ltd. (FARENCO), is a Chinese-owned, Hong Kong based agent for MOFERT organizations. FARENCO obtains charters, makes cargo arrangements, and also buys and sells vessels. [ ]

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SINO-AM Marine Company, Inc., and China Interocean Transport Inc., are US-based subsidiaries of MOFERT organizations and arrange charters and freight-forwarding from the United States to China. [ ]

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